

## ICELAND – A RELUCTANT EU CANDIDATE

*Björn Bjarnason*

Iceland submitted an application for membership to the European Union in a letter dated 16 July 2009, the same day the Icelandic Parliament, Althingi, passed a resolution empowering the Government to submit application, and, upon the completion of negotiations with the Union, to hold a national referendum on a prospective Treaty of Accession. It was also decided that the Government should be guided by the majority opinion of the Althingi's Committee on Foreign Relations regarding working methods and matters of basic interest in its preparation and organization for negotiations.

On 24 February 2010 the European Commission recommended opening accession negotiations with Iceland. The Commission acknowledged thereby Iceland's adherence to the common values of the Union, such as democracy, rule of law and the safeguarding of human rights. The Commission noted that to become a member of the EU, Iceland must meet the political and economic criteria laid down by the European Council in Copenhagen in 1993 and adopt the entire body of EU law, the *acquis*. Through its participation in the European Economic Area (EEA), Iceland had already adopted a considerable portion of the *acquis*. As an EEA member Iceland had participated in the single market for more than 15 years. Iceland joined the Schengen area in 2001.

The Commission's report identified areas where the Icelandic authorities should make serious efforts to achieve full alignment with EU law, in particular as regards fisheries, agriculture and rural development, environmental issues, as well as the free movement of capital and financial services. On 17 June 2010, the European Council welcomed



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the Commission's opinion on Iceland's application and the recommendation to begin accession negotiations. It noted that Iceland met the political criteria set by the Copenhagen European Council in 1993 and decided that accession negotiations should be opened.

On 21 June 2011 a statement was issued summarising the progress of the screening process between the European Union and Iceland, which began in November 2010. Experts from Iceland and the European Commission compared and scrutinized legislation in all 33 substantive chapters of the accession negotiations. It was confirmed that Iceland already implements, in part or in whole, 21 chapters of the EU *acquis* through its membership in the EEA. The main legislative differences between Iceland and the EU were to be found in chapters outside of the EEA, such as fisheries, agriculture, regional policy, environmental and monetary policy.

On 27 June 2011 the first substantive EU–Iceland Intergovernmental Conference (IGC) in Brussels saw the opening of four chapters and the immediate closing of two of them.

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On 12 December 2011, the third meeting of the IGC Accession Conference between Iceland and the EU at Ministerial level was held in Brussels. Discussions took place on five chapters of the accession negotiations, four of which were provisionally closed. One third of all chapters had been opened since substantive negotiations began in late June 2011. A quarter of all chapters had also been provisionally closed.

This timeline gives an overview of the formal Iceland-EU negotiating history. Upon reading it, one might conclude that everything was moving smoothly towards a friendly solution of the unresolved issues. This conclusion would be correct in the sense that nothing has been said formally to indicate the presence of any hurdles on Iceland's road to membership.

The Icelandic Government is split on the membership issue. Half of the eight cabinet ministers claim to be opposed to membership. What unifies the coalition of the centre-left Social Democratic Alliance (SDA) and the Left Green

Movement (LG) in EU matters is the notion that Iceland is conducting exploratory talks with the EU in order to see what terms of an agreement may be reached. If a common outcome is found it will be put to a referendum and the public will then have to make up its mind. The LG says it will oppose membership regardless of the outcome of the negotiations.

The position of the parties is indeed a reflection of the opinion of the people in Iceland: According to a Capacent Gallup poll conducted on behalf of the Federation of Icelandic

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Industries near the end of January 2012, 56.2 per cent of Icelanders are opposed to EU membership, 26.3 per cent are in favour and 17.5 per cent do not express an opinion. When asked how they would vote if a referendum was held now, 67.4 per cent said no to a membership, 32.6 per cent said yes. The question was also put to the 1350 who were asked whether they thought the application for EU membership should be withdrawn: 43.6 per cent said yes, but 42.6 per cent said no.<sup>1</sup>

Due to Iceland's application, the EU enlargement process is for the first time being put to the test on the example of an EEA- and Schengen-country. While the opening and closing of many chapters is a mere formality, discussions on the difficult issues of agriculture, fisheries and monetary policy are being moved to the end of the accession process.

## THE ECONOMY

Even though fisheries and agriculture are outside the EEA framework, Icelanders are applying for EU membership on the condition that they receive special stipulations for their agriculture and fisheries. Historically the Icelandic economy depended very heavily on the fishing industry, which now provides 40 per cent of export earnings, more than 17.5 per cent of GDP, and employs 7 per cent of the work force. Iceland's economy has been diversifying into power intensive industry, mainly the production of aluminum, manufacturing

1 | "Lítill breyting á viðhorfi til ESB aðildar" (Little shift of opinion of EU membership), SI – The Federation of Icelandic Industries, 22 Feb 2012, <http://si.is/malaflokkar/althjodlegt-samstarf/frettir-og-greinar-um-althjodamal/nr/9365> (accessed 17 Apr 2012).

and service industries, particularly within the fields of software production, biotechnology and tourism.

Abundant geothermal and hydropower sources have attracted substantial foreign investment in the aluminum sector; Rio Tinto, Alcoa and Century Aluminum (a US Company) own aluminum smelters in Iceland. The sector now provides almost 40 per cent of Iceland's export earnings, almost 7 per cent of GDP, and employs 2.7 per cent of the work force.

Much of Iceland's economic growth until late 2008 was rooted in domestic demand that resulted from the expansion of the country's financial sector. Domestic banks expanded rapidly in foreign markets following the privatisation of the banking sector in the late 1990s and early 2000. Before the 2008 crisis, Iceland's GDP per capita ranked among the top 3 worldwide. The foreign exposure of Icelandic banks, whose loans and other assets totaled more than ten times the country's GDP, became unsustainable. Iceland's three largest banks collapsed in October 2008, which led to financial crisis, economic and political upheaval.

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## THE BANKING CRISIS

The banking crisis led to social and political crises, which continue to dominate Icelandic society and political life, that landed the Prime Minister at the time, Geir H. Haarde, in court. He was charged with having done too little to protect the country against the mismanagement of its bankers as they expanded lending practices in such a way that created financial disaster for the country. Haarde was indicted in 2010 by a divided Althingi and charged with having violated the laws of ministerial responsibility. The Landsdómur trial came to end on 23 April 2012 with the former Prime Minister being found not guilty on all major counts. He was found partially guilty on a formal part of the indictment, as he had not convened cabinet meetings to report on the possibility of a banking crisis. The verdict said that he should not receive any punishment and is consequently a free man.

It has been said in retrospect that perhaps the safest way to prevent the collapse of the Icelandic banks would have

been, at the outset, to place more stringent limits on their operations than were placed on financial institutions in other EEA states; in other words, to deny them those rights conferred under the EEA Agreement. Had this been done, Iceland would not have been a full participant in the internal market of the European Union. The banks took advantage of extremely favourable conditions to expand more rapidly than was sustainable for the long term as things developed. Because of their relative size, the Icelandic banks were more vulnerable than many other businesses, even to moderately adverse developments.

Early in October 2008, the Althingi passed emergency legislation authorizing the Icelandic Financial Supervisory Authority to take over the banks' operations. The authorities had no choice but to act immediately on that authorization, take over the three large banks and divide their operations into two sections, the old banks and the new. The new banks, which were owned by the government, took over domestic banking activities, while foreign operations remained within the old banks, which were granted a moratorium on payment.

Following the collapse of the banks, the Icelandic government negotiated a Stand-By Facility from the International Monetary Fund on the basis of an economic program focusing on three main objectives: first, to stabilize the foreign exchange market and provide support for the appreciation of the Icelandic króna from its recent exceptionally low levels; second, to formulate a fiscal policy for 2009 and beyond aimed at establishing a sustainable level of debt; and third, to restructure the banking system in a transparent manner consistent with internationally recognized practices.<sup>2</sup>

The króna was devalued roughly by half of its pre-crisis value against the euro, exchange controls were introduced and assistance sought from the International Monetary Fund (IMF), which led to the signing of an agreement for financial support on 24 October 2008. In October 2008, when the crisis struck, the Icelandic state was virtually

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2 | Ingimundur Friðriksson, "The banking crisis in Iceland in 2008", 6 Feb 2009, <http://sedlabanki.is/lisalib/getfile.aspx?itemid=6795> (accessed 16 Apr 2012).

debt-free on a net basis. In 2011, Iceland's net debt reached 67 per cent of GDP. On 27 October 2011 the IMF and Iceland co-hosted a high-level conference in Reykjavík to celebrate Iceland's graduation from the IMF programme and examine the challenges still ahead.

## THE CRISIS LEADS TO EU APPLICATION

In a poll conducted by the newspaper *Fréttablaðið* and published on 27 October 2008, 72.5 per cent said they wanted the euro to replace the króna – compared to 43.8 per cent in February 2008 – and 68.8 per cent wanted to join the EU, compared to 55.1 per cent in February 2008.<sup>3</sup> In November 2008, the Social Democratic Alliance (SDA), a coalition partner of the centre right Independence

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Party (IP) since May 2007 and a staunch advocate of EU membership, demanded that the IP reconsider its negative position towards membership of the Union. This was done, but at the beginning of 2009 it was clear that the majority of IP's grass root members were opposed to any change in the party's EU policy opposing membership. The IP had been the leading party of Iceland since May 1991 and it had always been the senior coalition partner either with the Social Democrats or the Progressive Party (liberal).

Towards the end of January 2009, the SDA left the coalition with the IP and formed a minority Government with the Left Greens (LG) on 1 February 2009 which won a majority in parliamentary elections on 25 April 2009. This "pure" leftist Government, the first in Iceland, is still in office.

In its platform of 10 May 2009 the left-wing coalition states: "A decision on Iceland's accession to the European Union will be in the hands of the Icelandic nation, which will vote on the accession treaty following the conclusion of accession negotiations. The Foreign Minister will present a parliamentary resolution to the spring session of the Althingi proposing an application for EU membership. [...] The parties agree to respect the differing emphasis in each party concerning EU membership and their right to express their

3 | "70 prósent vilja ESB og evru" (70 per cent endorse EU and Euro), *Fréttablaðið*, 27 Oct 2008, 1, [http://timarit.is/view\\_page\\_init.jsp?pageId=4009368](http://timarit.is/view_page_init.jsp?pageId=4009368) (accessed 17 Apr 2012).

opinions and campaign in the wider community in accordance with their positions, and make provisos concerning the outcome of the negotiations as was the case in Norway in a similar situation.”<sup>4</sup> Based on this platform the Althingi passed the resolution regarding application on 16 July 2009.

## IMPERFECT CONSTITUTIONAL COUNCIL

In a recent resolution (14 March 2012) of the EU Parliament on the 2011 progress report,<sup>5</sup> Iceland is welcomed as a “country with a historically long and strong democratic tradition and civic culture” and its “close historic ties” with Northern Europe, while noting the “successful Euro-Atlantic cooperation for more than 60 years”. The EU parliament “notes with satisfaction the establishment of the Constitutional Council and the ongoing process of the review of the Icelandic Constitution aimed at increasing democratic safeguards, strengthening checks and balances, improving the functioning of the state institutions and better defining their respective roles and powers; welcomes the efforts to strengthen the role and efficiency of the Parliament by reinforcing the oversight role of the institution, as well as the transparency of the legislative process”. This statement is well meant in support of the position of the Icelandic government. From the point of view of the opposition it is however an odd statement, as there is no unanimity in the Althingi on the Constitutional Council, neither on its establishment nor its activities.

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As a matter of fact the Icelandic Supreme Court declared the elections of the Constitutional Parliament in November 2010 invalid due to technical failures. In order to save face, the government decided with majority support in the Althingi to appoint the 25 illegally elected members of the Constitutional Parliament as the Constitutional Council, thus disregarding the Supreme Court. The Council sent its

4 | Office of the Premier Minister, “Government Coalition Platform of the Social Democratic Alliance and Left-Green Movement”, 19 May 2009, <http://eng.forsaetisraduneyti.is/news-and-articles/nr/3730> (accessed 16 Apr 2012).

5 | European Parliament (ed.), “Resolution on the 2011 progress report on Iceland”, The Legislative Observatory of the European Parliament, [http://europa.eu/oeil/popups/fiche\\_procedure.do?lang=en&reference=2011/2884%28RSP%29](http://europa.eu/oeil/popups/fiche_procedure.do?lang=en&reference=2011/2884%28RSP%29) (accessed 16 Apr 2012).

proposals to the Althingi in the summer of 2011. Althingi is debating whether the proposals of the Council should be put to a referendum in the summer of 2012 or not. The whole process has been strongly criticized by constitutional lawyers, and in fact the proposals are still too unclear to pass any judgement on their final content.

## RESHUFFLE OF THE GOVERNMENT

In their resolution EU parliamentarians note the reshuffle of the Icelandic government on 31 December 2011 and express confidence that the new government will continue membership negotiations with an even stronger and more persistent commitment towards the accession process. On 31 December 2011 Jón Bjarnason (LG) was dismissed as Minister of Fisheries and Agriculture. He had staunchly opposed all demands from the EU on adapting Icelandic agriculture to EU criteria, as he opposed EU membership.

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Mr. Bjarnason was replaced as Minister by Steingrímur J. Sigfússon, LG leader. On 13 February 2012 he said in the Althingi that he considered it in "many ways inappropriate" by the EU Parliament's Foreign Affairs Committee to put itself in the position of giving Icelandic authorities "some kind of outside guidance". He said it did not serve any purpose to "squabble" about this Committee or "lose sleep" due to its work as it did not have any "legitimacy, power or position to tell us [Icelanders] in any way what to do or not to do". The minister was replying to questions raised by Einar K. Guðfinnsson MP (IP) who said that the EU Committee was "interfering" in Icelandic internal matters.<sup>6</sup>

The rapporteur on Iceland in the European Parliament, Cristian Dan Preda MEP (European People's Party, EPP), issued a statement on 14 February 2012 where he responded to Sigfússon's statement by saying: "Noting the reshuffle of the Icelandic government means that the Parliament is paying attention to what is happening in the political life of your country. We have not taken a position towards one

6 | Speech by Steingrímur J. Sigfússon at the Althingi, 13 Feb 2012, <http://www.althingi.is/altext/raeda/140/rad20120213T151625.html> (accessed 17 Apr 2012).



government or another. We have merely welcomed the new government as a new negotiation partner. We would have done this for all other candidate countries. [...] Iceland and the EU have enjoyed an excellent cooperation, expressed through Iceland's membership in the European internal market, and not only. Your country has an efficient negotiation team that defends the mandate that the Althingi has voted. On the other hand, our negotiators are very well prepared to ensure the adoption of the EU acquis."<sup>7</sup>

This exchange of views reflects that the MEPs neither realise nor recognize how Iceland differs from other candidate countries, as there is a fundamental rift in the government towards membership based on deep-rooted animosity towards the EU amongst one of the coalition partners. The angry and negative statements of the LG leadership should not only be interpreted as an effort to calm the domestic audience. They are also a warning to Brussels to keep out of Icelandic internal politics.

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The EP's resolution shows, however, that the MEPs are aware of differences in Iceland as they take "note of the political division inside the government as well as within the Althingi and all of Iceland's main political forces regarding EU membership" and encourage "the adoption of comprehensive strategies for the accession to the EU in certain areas, and particularly in those that are not covered by the EEA".<sup>8</sup>

The areas of agriculture and fisheries, which are not covered by the EEA, are the most sensitive as regards EU negotiations and the main reason for Iceland not to join the EU in 1992 when the EEA agreement was signed and ratified by Iceland after a long and tense debate in the Althingi. At that time the government said that the EEA was not the

7 | "Íslandsfulltrúi ESB-þingsins: Viðbrögð Steingríms J. reist á misskilningi á ályktun ESB-þingmanna – þeir hafa rétt til að hafa skoðun á aðildarumsókn Íslands" (Representative of the European Parliament: Steingrímurs answer is based on a misunderstanding of the resolution of the EU members – they are entitled to check Iceland's membership), *Evrópuvaktin*, 15 Feb 2012, <http://evropuvaktin.is/frettir/22432> (accessed 17 Apr 2012).

8 | European Parliament, n. 5.

first step towards EU membership but the final one. If EU membership had been brought up, then Iceland would be in the same situation as Switzerland where both alternatives were rejected at that time.

## EU INFORMATION CENTRE

In their resolution the MEPs are pleased to note that a significant number of Icelanders are in favour of the continuation of the accession negotiations and welcome the government's support for a well-informed and balanced debate about the accession process and the involvement of the Icelandic society in the public discussions on EU membership. They also consider the opening of the EU Information Centre in Iceland as an opportunity for the EU to provide citizens of Iceland with information regarding any consequences of EU membership for the country and the EU itself.

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One of the main arguments of those in favour of EU membership is that the majority of Icelanders want to end the accession talks in order to vote on the outcome in a referendum. When the opinion polls are studied, it is easy to reach the conclusion that many of those who are positive towards the talks want them finished in order to say no in the referendum. They want to get membership off the political agenda once and for all as was the case in Norway.

As for the "well-informed and balance debate" supported by the government, it should be noted that after the expulsion of Jón Bjarnason from the cabinet there is growing tension between him and some of his former colleagues. When Ögmundur Jónasson, Minister of the Interior (LG), stressed the importance of a swift conclusion of the EU talks, Foreign Minister Össur Skarphéðinsson (SDA) reacted angrily and said Jónasson should look closer to home at the behaviour of the "wild cats" inside the LG who had tried to stall the EU process. Bjarnason retorted that the Foreign Minister was an EU "house cat" – so much for the balanced debate.<sup>9</sup>

9 | "Jón Bjarnason segir Össuri lítinn karl og líkir honum við ESB-húskött" (Jón Bjarnason calls Össur a midget and an EU housecat), *Evrópuvaktin*, 28 Feb 2012, [http://evropuvaktin.is/i\\_pottinum/22626](http://evropuvaktin.is/i_pottinum/22626) (accessed 17 Apr 2012).

On 21 January 2012, the EU opened its Information Centre (Evrópastofa) in Reykjavík. Its establishment is the sole initiative and responsibility of the European Commission according to Anca Paduraru, Press Officer for Enlargement and European Neighbourhood Policy. The activities of the Centre are conducted by a private communications company, Media Consulta, Berlin, with an Icelandic sub-contractor, under contract with the European Commission.<sup>10</sup> The Commission allocates the total sum of 1.4 million euros to the Centre in 2012 and 2013. The operation of the Information Centre and especially the involvement of EU

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Ambassador Timo Summa have been strongly criticized. In a column of *Morgunblaðið* it was stated that his behaviour was “outrageous” as he travelled around Iceland with “uninhibited propaganda” about the need for Icelanders to join the EU. He stands accused by the editor, former Prime Minister Davíð Oddsson (IP), of breaching article 41 of the Vienna Convention on Diplomatic Relations by intervening in the internal affairs of Iceland.<sup>11</sup>

In the few weeks the EU Information Centre has operated, it has become obvious that there is a bumpy road ahead for those operating it, especially as they had stated that it was not their role to convince Icelanders of their rosy future as members of the Union. The latest twist in the short but troublesome history of the Centre is a letter sent to the Minister of the Interior on 7 March 2012 seeking his advice on the legitimacy of its activity in Iceland.

The MEPs also take a stand on a new, controversial media act adopted by the Althingi on 20 April 2011 and encourage the relevant parliamentary committees appointed during the summer of 2011 to work on the legislative framework in this field and concerning the ownership concentration of the Icelandic media market and the role of the Icelandic State Broadcasting in the advertising market. This has been

10 | “Stækkunardeild ESB hefur fundaherferð um land allt á Akureyri – ræðir stöðuna í aðildarviðræðunum við Ísland – 117 m. kr. til kynningar á ESB í ár” (EU’s enlargement department starts country wide series of meetings at Akureyri – discusses the status of Iceland’s accession talks – 117 m. kr. for information activity this year), *Evrópuvaktin*, 28 Feb 2012, <http://evropuvaktin.is/frettir/22620> (accessed 17 Apr 2012).

11 | “Sunnudagsmoggi: Reykjavíkurbéf”, *Morgunblaðið*, 3 Mar 2012.

interpreted as a request to cut down or even ban advertising in Icelandic State Broadcasting which has been an integral part of its activity for more than 80 years.

## IMF AND 2012 ECONOMIC SITUATION

In the resolution of the European Parliament the economic development of Iceland is discussed. The Icelandic authorities are urged therein to tackle extensive intervention still being undertaken by the state in the banking sector; it encourages the Icelandic authorities to gradually reform and open industries such as energy, air, and transport and fishing, which due to the specificities of the country continue to be protected from foreign competition; it supports, in this connection, efforts to shed further light on the causes of the collapse of Iceland's economic and financial system; and emphasizes that the elimination of protectionism is a prerequisite for sustainable economic development.

Iceland is commended for successfully completing the Economic Recovery Programme with the IMF, which aimed at fiscal and economic consolidation. It is noted with pleasure that good economic progress is already achieved and that extensive restructuring and reforms have been pursued in the financial sector. Icelandic authorities are encouraged to continue their efforts to reduce the level of unemployment and in particular youth unemployment. Note is taken of the approval by the Althingi of the revised strategy for the lifting of capital or exchange controls, prepared by the Icelandic authorities in consultation with the IMF, and of the constructive dialogue conducted between Iceland and the EU in this field. The lifting of capital controls is mentioned as an important requirement for Iceland's accession to the EU.

**The IMF issued a statement saying that Iceland had achieved much since the crisis. Nonetheless, considerable challenges remained.**

The EU Parliament's description of the Icelandic economic situation at the beginning of 2012 is not completely in accordance with the comments and conclusions of IMF inspectors who visited Iceland near the end of February and the beginning of March 2012. On 2 March 2012 the IMF issued a statement saying that Iceland had achieved much since the crisis and that its economy was growing again. Nonetheless, considerable challenges remained. Tackling these would require steady policy implementation, increased

coordination, and stronger policy frameworks. The outlook was for a moderate recovery. Over the medium-term, the drivers of growth would gradually shift away from domestic demand (notably investment) towards external demand (as exports increase). However, there were risks to this outlook, emanating from both external and domestic sources.

The IMF mission also stated that lifting capital controls remained a key challenge. The speed of capital account liberalization would depend critically on the strength of the balance of payments outlook, reserve adequacy, and the need to safeguard financial stability. In view of the uncertainty in the global environment, consideration should be given to a further extension of the capital controls, beyond the end of 2013.<sup>12</sup>

Capital controls in Iceland were accepted within the EEA as temporary measures in the autumn of 2008. How long “temporary” is may be relative, but such measures are at odds with the EU acquis and their abolition is sine qua non for finishing the accession talks.

## AGRICULTURE

When evaluating Iceland’s capacity to adopt the obligations of membership, the MEPs call on Iceland to intensify preparations for alignment with the EU acquis, in particular in areas not covered by the EEA, and to ensure its implementation and enforcement by the date of accession. This is a critical point, as there has been a serious political debate within the Icelandic government coalition over what this means, e.g. how the administration of Icelandic agriculture should be changed during the accession process. The official Icelandic policy is that no changes will take place before the outcome of a referendum on the final agreement. The EU on the other hand wants at least to have a detailed timetable on this score before opening the chapter on agriculture in the negotiations.

**The MEPs call on Iceland to enhance the preparations for alignment with the EU acquis and to ensure its implementation and enforcement by the date of accession.**

12 | International Monetary Fund (ed.), “Iceland – 2012 Article IV Consultation Concluding Statement of the IMF Mission”, 2 Mar 2012, <http://www.imf.org/external/np/ms/2012/030212.htm> (accessed 15 Apr 2012).

The MEPs consider it important that preparations be made, so that the necessary administrative structures are adequately adapted in order to ensure Iceland's full participation in the Common Agricultural Policy (CAP) from the day of accession, while recognizing the specificities of Icelandic agriculture, in particular with respect to the present food self-sufficiency of the country and the ongoing process of reform of the Common Agricultural Policy.

The Farmers Association of Iceland is adamantly against EU membership and it has prepared seven defence lines with minimum demands in EU negotiations. The Association desires permanent exemptions from the European Union's legislation on agriculture. Temporary exemptions in their view do not suffice to safeguard the future interests of Icelandic agriculture. Unclear and relatively uncommitted declarations from the negotiating parties do not satisfy the Association; it wants unilateral reservations to form a part of the membership treaty itself.

The seven points of the defence lines the farmers have drawn bear the following headings:

1. Rights of Iceland to protect the health of humans, animals and plants;
2. freedom to support agriculture and domestic processing industry;
3. permission to levy a duty on farm products from EU countries;
4. the right to ensure the social status and performance of farmers;
5. the definition of Iceland as one area in terms of agriculture;
6. the right to sustainable utilisation of natural benefits and normal defences against predators and vermin; and
7. the status of ownership right of farmers and land-owners shall not be disrupted and access to quality cultivated land must be ensured.<sup>13</sup>

13 | Bændasamtök Íslands, "The minimum demands of the Farmers Association of Iceland in the negotiations with the European Union", <http://bondi.is/lisalib/getfile.aspx?itemid=4815> (accessed 2 Apr 2012).

The Icelandic side has not made public any official negotiating objectives on agriculture. There is disagreement behind the scenes over how to proceed. It is even disputed whether it should be done in consultation with the Farmers Association or not. The Foreign Minister appears reluctant to present the farmers' policy as the official Icelandic position knowing that it would be categorically rejected by the EU.

## **FISHERY POLICY**

Icelandic political parties do not agree on agricultural issues, the SDA being the least supportive of farmers' interests. The same could not be said about fisheries, although the parties differ on internal fishery management laws, and governmental proposals on that issue draw a dividing line in Icelandic society as a whole. All political parties agree on the necessity of defending Iceland's rights to fishing. In the majority report of the Foreign Affairs Committee of the Althingi it is confirmed "that fisheries will be the single most important issue in the anticipated accession negotiations with the EU".<sup>14</sup>

The majority believes that a workable option to maintain control by Icelandic authorities inside the Icelandic 200 mile exclusive economic zone, comprising some 758,000 square kilometres, could be to define it as a special Icelandic fisheries management zone. Foreign fishing vessels would, therefore, have no right to catch from local, Icelandic fish stocks within the zone. In this context, the majority seeks to emphasise the principles of the United Nations Convention on the Law of the Sea, which can only be seen as a means to secure certain fundamental rights that must not be impaired on the basis of EU rules, e.g. the sovereignty of a 200-mile fisheries jurisdiction. The majority also considers it of great importance that Iceland retains, to the extent possible, the right to negotiate the management of fisheries from straddling stocks, thereby securing the greatest possible right to fish from these stocks, as straddling fish stocks have become increasingly important for the performance of

14 | "Committee Report on a Proposal for a Parliamentary Resolution on Application for Membership of the European Union", 18, [http://europe.mfa.is/media/MFA\\_pdf/Foreign-Affairs-Committee-report.pdf](http://europe.mfa.is/media/MFA_pdf/Foreign-Affairs-Committee-report.pdf) (accessed 15 Apr 2012).

the sector. According to Icelandic parliamentarians, ways to secure the interests of Iceland through direct access to such a negotiation process must be sought.

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The majority of the Althingi does not want the EU to represent Iceland in international negotiations on fisheries and the law of the sea "as the fundamental economic interests of the nation are at stake". As far as foreign investment in fisheries is concerned, the majority considers it fundamentally important to hold detailed consultations with the fisheries sector regarding Iceland's negotiation position. At the same time, the majority considers it the primary obligation of Iceland's negotiators to ensure that the revenue of the fisheries resource stays in Iceland. The majority conclusion on this matter in Althingi's Foreign Affairs Committee is that "[...] there will be no scope for foreign fisheries to invest in Iceland in a manner where the use of the resource and the revenues yielded would leave the country." Still, a minority in the Althingi is against any discussion on fisheries with the EU.

European parliamentarians are more diplomatic than their Icelandic colleagues. In their resolution they take account of the fact that both EU's Common Fisheries Policy and the Icelandic fisheries policy are currently being revised. These call on Iceland and the EU to approach this chapter of the negotiations in a constructive way, i.e. with a view to reaching a mutually satisfactory solution for the sustainable management and exploitation of fisheries resources within the applicable acquis. In other words Iceland cannot expect any meaningful discussion on fisheries with the EU until a new Common Fishery Policy (CFP) has been formulated or approved. This works contrary to aims to reach a swift conclusion of the EU talks. No one is certain when the CFP will be approved, although 2013 has been set as an aim.

## **MACKEREL DISPUTE**

The European parliamentarians encourage Iceland and the other coastal states – Faroe Islands, Norway and the EU – to continue the negotiations aimed at reaching a resolution of the mackerel dispute. This dispute has been dragging on for some years since mackerel began moving further north and



out of EU waters (Irish and Scottish) due to climate changes. Icelandic fishermen newly began availing themselves of this fish stock in competition with their neighbours. Since no agreement has been reached by the four coastal states they take unilateral decisions on quotas for their fishermen. The last meeting held with the aim to reach an agreement on 2012 fishing quotas convened in Reykjavík from 14 to 16 February 2012. It did not lead to a resolution.

Following the inconclusive meeting, Maria Damanaki, Commissioner for Maritime Affairs and Fisheries, on behalf of the European Union, and Lisbeth Berg-Hansen, Minister of Fisheries, on behalf of Norway, expressed their disappointment and grave concern. They said the EU and Norway had built up the mackerel stock on a sustainable basis. This sustainability was being directly threatened by the recent development of new and unilateral fisheries established by Iceland and the Faroe Islands. Icelandic mackerel fisheries had increased from almost zero catch in 2006 to catches of 156,802 tons in the Icelandic Zone in 2011, whilst Faroese catch levels had increased six-fold over two years to 150,000 tons the same year. If the EU and Norway had followed the same Icelandic and Faroese logic for the justification of setting quotas, then the total fishing pressure on the stock would go totally out of control. Such developments were, in the view of the Union and Norway, inconsistent with sustainable management and in violation of international commitments by Iceland and the Faroe Islands to co-operate with other parties.<sup>15</sup>

**Icelandic mackerel fisheries had increased from almost zero catch in 2006 to catches of 156,802 tonnes in the Icelandic Zone in 2011.**

Without any agreement the mackerel catches in 2012 will be similar to those in 2011. Iceland's catch has been 16 to 17 per cent; the EU wants it to be cut to around 6 per cent. Were Iceland to join the EU, it would be up to the Commission to determine Icelandic catch quotas, as the EU would become a coastal state instead of Iceland and take over all rights and obligations now in Icelandic hands according to the U.N. Law of the Sea Treaty. The Scots and the Irish have demanded that the EU introduce a landing

15 | European Commission (ed.), "Joint Statement of Commissioner Damanaki and Norwegian Minister Berg-Hansen on mackerel", 16 Feb 2012, [http://ec.europa.eu/fisheries/news\\_and\\_events/press\\_releases/2012/20120216/index\\_en.htm](http://ec.europa.eu/fisheries/news_and_events/press_releases/2012/20120216/index_en.htm) (accessed 15 Apr 2012).

ban and trade embargo to penalise Iceland and the Faroe Islands. Although this has not been implemented, it could be expected that the Irish or the British might use their veto power in the EU Council to arrest Iceland's accession process until a solution to the mackerel dispute is reached. On the other hand the argument might also be made that it would be best to draw Iceland into the EU and subsequently assume control of the mackerel fishing.

When one examines the mackerel dispute and the desires of the majority of Althingi's Foreign Affairs Committee as regards a special zone around Iceland, and that Iceland retains the right to negotiate the management of fisheries from straddling stocks, such as with the mackerel issue, it is obvious that it will not at all be easy to find common ground leading to an agreement. Divergences between the EU and Iceland also remain on the question of whaling. The MEPs point out that the ban on whaling is part of the EU *acquis* and call for broader discussions on the matter of the abolition of both whaling, as well as trade in whale products. Whaling is a sensitive political issue in Iceland and enjoys broad public support.

As this *tour d'horizon* of what is at stake in Iceland-EU negotiations indicates, there are many hurdles to surmount before a final destination can be reached. Unless one is committed to the European Project and considers it a political necessity to support it out of political conviction, the conclusion might easily be reached that Iceland is better off with the EEA-agreement than by joining the Union. The future of the European Project is however less clear now than it was in 2009 when Iceland applied for membership.

## TIES TO NORTH AMERICA

**In Canada live almost as many people of Icelandic origin as in Iceland. An influential lobby is promoting the idea of replacing the króna with the Canadian dollar.**

No security interests draw Iceland to the EU, as it is a member of NATO with traditionally close ties to the US based on a bilateral defence agreement that has been in place since 1951. Recently, special attention has been focused on relations with Canada, where almost as many people of Icelandic origin live as in Iceland. An influential lobby is promoting the idea of replacing the króna with the Canadian dollar. In a recent poll, seven out of ten Icelanders said

they would happily forfeit their volatile and fragile króna for another currency. Their favoured alternative was the Canadian dollar, easily outscoring the US dollar, the euro and the Norwegian krona.<sup>16</sup>

On 2 March 2012 Alan Bones, Canadian Ambassador to Iceland, gave an interview on Icelandic State Radio stating that if a change in currency meant “a straightforward unilateral adopt of the Canadian dollar by Iceland where it’s clear there’s no input into monetary policy then we’d be certainly open to discussing the issue”.<sup>17</sup> This comment led to the Icelandic interest in the dollar becoming better known in Canada; the discussion on some kind of monetary cooperation is bound to continue.

## THE ARCTIC

Any discussion with Canada will also reflect common Icelandic/Canadian interests regarding the Arctic. The Canadians have opposed any formal EU Arctic involvement, e.g. opposing a permanent observer status of the EU in the Arctic Council due to the embargo on seal products within the EU. In short there seems to be a complete lack of understanding within the EU on the necessity of recognizing North Atlantic and Arctic heritage and as regards the livelihood of northern nations.

**The Canadians have opposed any formal EU Arctic involvement due to the embargo on seal products within the EU.**

In this context it is interesting to note the attitude of the EU towards Iceland due to its geographical location. In their resolution European parliamentarians consider “that Iceland’s accession to the EU would significantly enhance the Union’s prospects of playing a more active and constructive role in Northern Europe and in the Arctic, contributing to multilateral governance and sustainable policy solutions in the region, as challenges to the Arctic environment are of mutual concern”.<sup>18</sup> And they believe “that Iceland could become a strategic bridgehead in the region and its

16 | “A loonie idea – A rival to the euro”, *The Economist*, 10 Mar 2012, <http://economist.com/node/21549967> (accessed 16 Apr 2012).

17 | Dana Flavelle, “Iceland’s yen for loonie causes diplomatic embarrassment”, *Thestar.com*, 2 Mar 2012, <http://thestar.com/business/article/1140013--iceland-s-loonie-idea-adopting-canadian-currency> (accessed 16 Apr 2012).

18 | European Parliament, n. 5.

accession to the EU would further anchor the European presence in the Arctic Council". Iceland is a member of the Arctic Council with the US, Canada, Greenland/Denmark, Norway, Sweden, Finland and Russia. Of those eight countries five are Arctic coastal states (USA, Canada, Greenland/Denmark, Norway and Russia). It is obvious that the EU sees having Iceland as a member as a positive step in order to gain more influence in the Arctic and thus becoming an Arctic coastal state, albeit not counted among the group of five. The Icelandic government has protested to separate meetings of the group of five to discuss issues of common interest but to no avail.

It is to be noted, that a resolution on an Icelandic 'High North Policy', adopted by the Althingi in March 2011, reinforced Iceland's commitment to play an active part as a coastal state in the Arctic region. The question to be answered in the accession talks is whether Iceland or the EU will become the coastal state. European parliamentarians are of the view "that Iceland's accession to the EU would strengthen both the EU's voice in the Arctic and the North Atlantic dimension of the Union's external policies".<sup>19</sup> All things considered it seems obvious that Brussels regards Iceland as a stepping stone into the Arctic, while the Icelandic government seeking EU membership asserts at least for its home market that it can maintain its own high profile in spite of joining the Union.

## CONCLUSION

New ideas about the future of the European Union are being voiced. On the one hand, we have voices advocating a "two-speed" Europe, meaning the development of closer cooperation among some member states, while pursuing objectives that are common to all EU member states, as they are actually and precisely the objectives sought by the EU treaties.<sup>20</sup> On the other hand, we have voices promoting the idea of a "wider Europe" where Turkey, Norway, Switzerland and Iceland should be asked to join talks on designing the economic and political contours of a wider Europe of which they and the EU member states would all be a part. This looser alliance would have at its core EU single-market

19 | Ibid.

20 | Jean-Claude Piris, *The Future of Europe*, Cambridge University Press, 2012, 6.

legislation, but there would neither be assumption of the free movement of labour nor a common agricultural or fishery policy.<sup>21</sup> Iceland's interests would be better safeguarded within a "wider Europe" than a "two-speed" one.

It is clear that the accession talks will still be going on at the end of the present electoral term of the Althingi in April 2013. The Independence Party with 37 per cent support in a Gallup poll at the beginning of May 2012 passed a resolution at its congress in November 2011 stating: "The Independence Party considers that Iceland's interests will be better taken care of outside the European Union and does not support the accession talks of the Government. The EEA-agreement is the best way to enhance the co-operation with the EU. The IP warned that it would be unwise to send in an application for membership without a broad public consensus and without clear negotiating aims. No notice was taken of this warning and the accession talks are now in an impasse due to divisions within the Government. The Party Congress resolves that the accession talks with the EU shall be suspended and not resumed unless it is approved in a referendum."<sup>22</sup>

It is highly unlikely that this policy will become more EU friendly before the elections. The party cannot join any government without suspending present talks with the EU. The Social Democratic Alliance with 18.7 per cent support in a Gallup poll at the beginning of May 2012 is the only political party in Iceland supporting EU membership. If it is to be in power after the next elections, it must cooperate either with the IP or with two or three smaller parties. The Progressive Party with 12 per cent support in May 2012 and the Left Greens with 11.5 per cent support in May 2012 are opposed to EU membership. It is likely that some newcomers will introduce candidates at the next elections; they might want to continue the accession talks but none would promote EU membership. By these indications, Iceland obviously remains a rather reluctant candidate for EU membership.

21 | David Owen, "At last, we can have it both ways on Europe", *The Spectator*, 25 Feb 2012, 12.

22 | "Ályktun um utanríkismál" (Resolution on foreign affairs), Resolution Paper of the Independence Party resolved at their 40th party congress, 17-20 Nov 2011, <http://xd.is/media/xd/landsfundur-2011/alyktanir/Utanrikismal-samthykkt-pdf.pdf> (accessed 17 Apr 2012).